



WOODWARD
WEALTH MANAGEMENT

2010 ECONOMIC AND MARKET REPORT

The following are the views and the opinions of Woodward Wealth Management, a registered investment advisor.

2010 is the first full year of a three year global economic recovery. Some countries, especially in Asia, will recover faster than others. The entirety of the global economic revival will be closely tied to economic recovery in the United States.

The 2008/2009 global recession, arguably the deepest recession since the Great Depression, did major damage to worldwide financial, business and banking communities. Economists continue to take inventory of the damage, especially in the banking sector. Given sufficient time, many damaged sectors of the global economic will recover as we strive to define the new “normal.”

In the United States:

“Sluggish” is the single word that will most likely characterize the U.S. economic recovery in 2010.

The U.S. Gross Domestic Product (GDP) will continue to demonstrate growth during the first the first half of 2010. Watch for expiring federal stimulus programs that will put pressure on GDP in the 2d half of 2010, supporting the possibility of disinflation. (Disinflation: A decrease in the rate of inflation-a business cycle phase in which retailers can no longer pass on higher prices to the consumer. Often occurs during a recession. May be caused, or exacerbated by government decreasing the money supply and/or increasing interest rates. Depresses stock prices of retailers, wholesalers, manufactures, transpiration, and providers of raw goods). We may even see a push for a second federal stimulus program. The ongoing weakness of the US dollar will prolong our sluggish recovery.

In 2010, inflation, interest rates, and the value of the U.S. dollar will stay low. If we escape disinflation you may see the Federal Reserve Open Market Committee begin a gradual, incremental increase in interest rates near the close of 2010, or early in 2011. This will depress bond prices, job formation, real estate, and the stock market.

Big business and the wealthy, with access to capital and the capital markets, will recover first. Small and mid-sized business, with their limited access to the capital markets, will continue to find the banking community unwilling to finance their liquidity requirements and expansion plans. As such, the viability struggle for many small and mid-sized businesses will continue in 2010. There will be small pockets of business success across the country, e.g. exporters should do well, but many more small and mid-sized businesses will fall by the wayside unable to survive until general economic recovery takes hold in 2011 and 2012. Unemployment will trend upwards during most of 2010.

The individual U.S. consumer expecting a 2003-like skyrocket recovery will be disappointed. Many U.S consumers now have too much debt, they have run out of borrowing power, and their net worth, as a

percentage of their disposable income, is lower than it was in the 1950s. 2010 will be an economizing year for many U.S. consumers.

Housing will continue to recover, but at a snail's pace. A buyer's market in residential housing, especially new housing, will continue throughout 2010. Commercial real estate, already depressed by recession caused vacancies, will face continued challenges as the banking community begins to refinance distressed commercial real estate loans. A significant commercial real estate buying opportunity will present itself, most likely in late 2010, and 2011.

The U.S. stock market will lead the U.S. economy out of recession, albeit chaotically, and over time. As we observed in 2009, we are in a long term bear market. Nevertheless, big rallies and cyclical bull markets do occur during long-term bear markets. If we concurrently experience rising U.S. interest rates, congressional restriction of free enterprise, disinflation, and increased personal income taxation, the result will be an adverse effect on the U.S. stock market. We may experience many, if not all, of those adverse economic pressures during 2010, continuing into 2011, and 2012. We, as mortals, are not permitted to know the exact moment a bear market transitions into a bull market. But the "transition" will come. Consumer sentiment can change "on a dime." If the adverse economic pressures do not materialize, or if adverse economic pressures are moderate, you do not want to be sitting on the sidelines when the U.S. stock market, lead by the resurgence of small cap stocks, takes off. The full transition from a bear to a bull stock market will take place when the artificial economic stimulants have washed out of the economy, when unemployment drops through 8% heading downward, when consumers start consuming, when manufactures start manufacturing in response to consumer consumption, and when U.S. corporations have some breathing room and once again are able to add to their net worth by expanding plant, equipment, and jobs. Will the bull market transition take place in 2010? It could; but we don't think it will happen until 2011.

If a significant geopolitical event takes place within the United States, in 2010 U.S. economic recovery will be delayed.

We remain optimistic in the knowledge that the United States Economy continues to be the most powerful economy in the world. The United States Economy is more powerful than any congress, political administration, war, geopolitical event, or recession. But we also recall that the United States economy is cyclic. Generally we know how economic cycles work, but our collective frustration in our inability to accurately predict, significantly in advance, the exact beginning and end of economic cycles will continue.

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